



Fiscal FOCUS

IN THIS ISSUE

Fiscal Smarts

...PAGE 2



IN THIS ISSUE

Focus On Revenue

...PAGE 4



IN THIS ISSUE

Fiscal Forum

...PAGE 6



IN THIS ISSUE

Vital Statistics

...PAGE 13



Gaming in Illinois

Gambling is pervasive. Only two states, Hawaii and Utah, have no legalized gambling. Nationally, legal forms of gaming range from card and bingo games to lotteries, dog and horse racing, and land-based and riverboat casinos (*see centerpiece spread on pages 8-9*).

National data regarding legalized gaming indicate that the total amount wagered increased about \$39 billion or 6% from 1997 to 1998, and gross gaming revenues (dollars wagered minus payouts) increased approximately \$3.4 billion or 6.6% during that same period. (*see National Gaming Revenues and National Wagering Tables on page 7*). Overall, wagering and gaming revenues are increasing from year to year, although some forms of gaming are more successful than other forms. Riverboat wagering and revenues are up, but the trend for horse racing, lotteries and bingo is relatively flat. This pattern also exists in Illinois as the following section shows.

FROM THE COMPTROLLER

Dear Readers:

Illinois has a variety of gaming alternatives. Consumers can spend money on activities ranging from bingo and lottery tickets to horse racing and riverboat casinos. Revenues derived from gaming benefit the state and local governments, with a sizeable portion earmarked for education. Some analysts, however, believe Illinois has reached a saturation point.

The enactment of PA 91-40 in 1999 is having a significant impact on gaming. The provision to allow dock-side riverboat gambling has witnessed an increase in wagering tax collections, while changes in the structure and distribution of horse racing taxes is reducing the amount of money available to the General Revenue Fund. The articles in this issue are intended to provide readers with an overview of the forms of gaming in Illinois relative to other states, and with a detailed look at the amounts and trends in revenues.

I am glad to announce that the Comptroller's Office has begun mailing the first of over 2 million income tax rebate checks to Illinois taxpayers. The rebates are part of the tax relief package passed by the General Assembly and rely on Illinois' share of the nationwide tobacco settlement funds. In the spirit of helping health and education programs, I urge Illinois taxpayers to consider donating all or a portion of their rebate to a charitable organization committed to the elimination of smoking related illnesses.

As always, your comments about this and our other publications are welcome. Your input can be sent directly, or via the web site at www.ioc.state.il.us.

Sincerely,

Daniel W. Hynes
Comptroller



Fiscal Focus is one of the ways the Comptroller's Office strives to assist taxpayers and the people of Illinois. This monthly report is designed to provide fiscal information of general interest and in compliance with state statutes.

Chief Editor: Daniel W. Hynes

Editorial Staff: David Griffith and Ann Sundeen. Writers & Analysts: David Griffith, Stephanie Blair, Kevin Fitzpatrick, Loren Iglarsh and William Dracos. Production: Janet Irlam, Rhonda Rathbone, Susan Hansen, Brenda Voyles, Frank Weitzel, Larry Hopkins and Mike Petropoulos.

Fiscal Focus is published by Comptroller Daniel W. Hynes, 201 State House, Springfield, Illinois 62706. Questions or comments may be directed to (217)782-6000.

Web Address: <http://www.ioc.state.il.us>

In compliance with the Americans with Disabilities Act, this document may be requested in alternative formats by contacting the Office of the Comptroller at (217)782-6000 or calling the IOC Telecommunications Device for the Deaf (TDD) number, (217)782-1308, or by visiting the Illinois state Capitol Building, 201 State House, Springfield, Illinois.

The Illinois Office of the Comptroller is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, marital status, national origin, ancestry, age or disability in employment or in the provision of any services, programs or activities.

Printed by Authority of the State of Illinois 9/22/00
- 3,500 Job 34780.



Reproduction of articles from this issue or portions thereof is allowed with proper attribution to Fiscal Focus, Illinois Office of the Comptroller.

Fiscal Smarts

Problem Gamblers

Gaming poses a dilemma for state governments. On the one hand, states advertise lotteries to entice people to play, and state support for other forms of gaming such as casinos or horse racing promotes the notion that gambling is socially acceptable. On the other hand, research indicates that the increase in gaming is creating an increase in pathological gambling, and that problem gambling, in particular, is accompanied by high social and economic costs.

Problem gambling, pathological gambling, and addictive gambling are terms used to refer to the same behavior. That behavior is the uncontrollable preoccupation with gambling that leads to the disruption and destruction of personalities, family relationships, careers, and sometimes lives. Problem gambling is considered to be a progressive disease that goes through three

phases: winning, losing, and then, desperation when gambling becomes a full-time obsession.

National Estimates

No one knows how many problem gamblers there are. Various studies on gaming in the early 1990s estimated the number of problem gamblers to be between 2 percent and 10 percent of the adult population. A 1999 study reported that 5 percent of adults, 14 percent of college students, and 13 percent of adolescents are lifetime pathological gamblers. In fact, one of the more alarming discoveries is that more and more adolescents are gambling. A Louisiana survey of 10,000 adolescents found that 10 percent had bet on horse racing, 17 percent had gambled on slot machines, and 25 percent

FISCAL SMARTS continued, page 6

HOW Illinois Stacks Up

Illinois Lottery Sales Rank Eleventh in Nation

Lotteries stand out in the gaming industry by virtue of several distinctive characteristics. They generate the most revenue of any form of gambling in the United States and they are the only form of commercial gambling that a majority of adults report having played. In a recent Gallup poll, 75 percent of the respondents approved of lotteries as a way to raise revenue, and 57 percent had purchased a ticket within the past year.

Currently, lotteries legally operate in 37 states and 100 countries. New Hampshire was the first state to launch its game in 1964. One other state joined the ranks of lottery states in 1966 (New York), 12 states adopted lotteries during the 1970s, and another 17 states did so during the 1980s. That only six states adopted lotteries in the 1990s is testament less to waning enthusiasm than

Fiscal Year	Gross Sales	Commissions to Agents & Vendors	Lottery Operating Expenses	Prizes	Transfers to Common School Fund
1989	\$ 1,571.3	\$ 98.3	\$ 49.6	\$ 792.7	\$ 586.1
1990	1,570.2	98.4	51.5	791.6	594.0
1991	1,566.4	98.7	52.5	777.9	580.0
1992	1,636.9	103.5	51.5	815.1	610.5
1993	1,575.9	101.1	53.7	784.8	587.6
1994	1,528.6	99.1	53.0	794.7	552.1
1995	1,629.5	106.5	59.4	859.0	588.3
1996	1,637.4	109.0	57.6	839.0	594.2
1997	1,623.2	107.6	63.2	827.4	590.2
1998	1,577.0	104.9	65.3	836.3	560.0
1999	1,526.0	98.4	65.2	822.4	540.0
2000	1,503.9	97.0	61.2	798.9	515.3

Illinois Department of the Lottery. FY 2000 figures are preliminary.

to the dwindling number of non-lottery states. Illinois' state lottery was authorized in 1974. Hawaii and Utah do not have any form of legal commercial gambling.

Lottery Sales

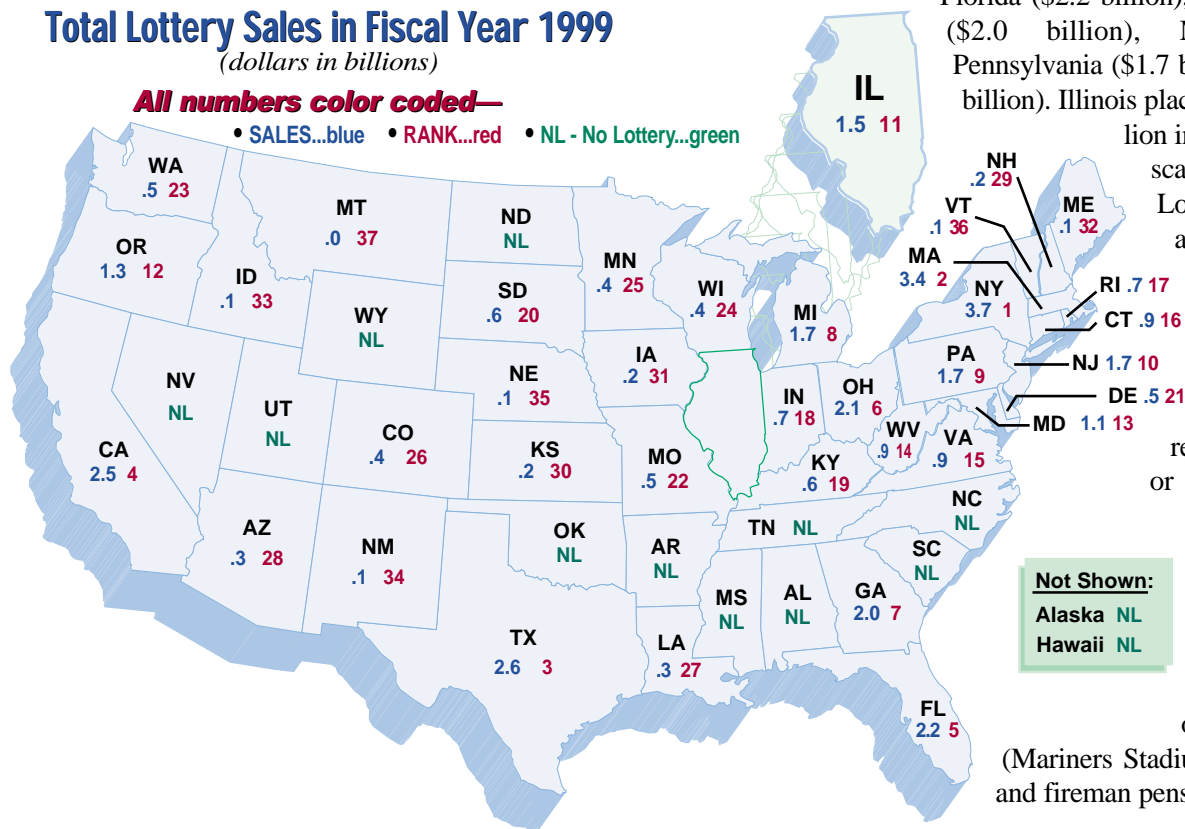
Lotteries rank first among the various forms of gambling in terms of gross sales. Total lottery sales in 1999 totaled \$37.1 billion.

Ranked by the International Gaming & Wagering Business, the top ten states each generated sales of \$1.65 billion or more. The State of New York's Lottery ranked first with \$3.7 billion. Rounding out the top ten rankings were Massachusetts (\$3.4 billion), Texas (\$2.6 billion), California (\$2.5 billion), Florida (\$2.2 billion), Ohio (\$2.1 billion), Georgia (\$2.0 billion), Michigan (\$1.7 billion), Pennsylvania (\$1.7 billion), and New Jersey (\$1.7 billion). Illinois placed 11th in 1999 with \$1.5 billion in sales. At the other end of the scale was the State of Montana's Lottery that grossed \$30 million and ranked last.

Total Lottery Sales in Fiscal Year 1999 (dollars in billions)

All numbers color coded—

• SALES...blue • RANK...red • NL - No Lottery...green



Not Shown:

Alaska NL
Hawaii NL

Uses of Revenue

Of the 37 state lotteries, only 8 states put the revenue into their general funds. Of the remaining states, 17 earmark all or part of their lottery revenues for education, making that the most common use of lottery funds. Other uses range from the general (parks and recreation, tax relief, and economic development) to the more specific (Mariners Stadium in Washington and police and fireman pensions in Indiana).

SOURCE: International Gaming & Wagering Business, January, 2000.

HOW ILLINOIS STACKS UP continued page 5



Gaming Revenues Top \$1.3 Billion

Revenues from all forms of gaming in Illinois totaled \$1.330 billion in fiscal year 2000. This is an increase of \$114.6 million or 9.4 percent from fiscal year 1995. Despite a surge in riverboat receipts, the overall growth averages less than 2 percent per year.

The increase in the total gaming receipts hides the fact that some games are generating less revenue to the State Treasury than they did five years ago. Revenues from the lottery, horse racing, charitable games, and bingo are down from the levels experienced in prior years (see State Revenue from Gaming table). Only rev-

enues from riverboats and pull tabs and jar games are greater in fiscal year 2000 than they were in fiscal year 1995. The latter source, however, is relatively minor accounting for slightly more than \$8 million compared to over \$475 million contributed by riverboats.

The growth of riverboat revenues was not unexpected. Casino gaming is very popular among consumers, and the change to dockside gambling at the end of June 1999, boosted wagering over previous months. In addition, PA 90-548 changed the riverboat wagering tax from a flat tax (20% of adjusted gross receipts) to a graduated tax (the rate increases from 15% to 35% as the adjusted gross receipts increase). Some observers believe that the decline in lottery and horse racing receipts is due to the popularity of riverboats, but also keep in mind that the Arlington International Racecourse was closed and did not have live racing in 1998 and 1999.

The enactment of PA 91-40 in June of 1999 significantly changed the structure of horse racing taxes and their distribution, and reduced the amount of money available to the state. The pari-mutuel privilege tax has been reduced to a flat rate of 1.5 percent of the gross handle; the privilege tax on wagers placed outside of

Gaming Revenues for Education (Dollars in Millions)

	Fund	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Lottery	CSF	\$588.3	\$594.1	\$590.2	\$560.0	\$540.0	\$515.3
Riverboats	EAF	170.8	205.0	185.0	170.0	240.0	330.0
Pull Tabs/Jar Games	CSF	3.8	4.0	4.0	3.9	3.9	4.1
Bingo	CSF	3.7	3.6	3.4	3.2	2.9	2.8
Total		\$766.6	\$806.7	\$782.6	\$737.1	\$786.8	\$852.2

CSF = Common School Fund

EAF = Education Assistance Fund

Source: Office of the Comptroller.

Illinois has been eliminated; the Horse Racing Tax Allocation Fund was abolished; the state will not receive any of the track breakage; and proceeds from uncashed pari-mutuel tickets will be split between the tracks and horsemen instead of being deposited into the Illinois Veterans Rehabilitation Fund. In addition, one of the provisions of the new law is the creation of the Horse Racing Equity Fund that will receive 15% of the adjusted gross receipts from the Emerald Casino riverboat license expected to relocate to Rosemont. Some of PA 91-40's funding changes are to be held harmless with revenue from the General Revenue Fund.

Changes in gaming revenue affect receipts in two education funds, the Common School Fund which supports elementary and secondary education, and the Education Assistance Fund which supports elementary and secondary education and higher education programs. Although total gaming revenues deposited in these two funds increased over \$65 million or 8.3 percent from FY 1999 to FY 2000, the trend for individual games is mixed. Lottery transfers and bingo taxes have actually decreased since FY 1996, and taxes from pull tabs and jar games have remained steady. Only the revenue from riverboat gaming has increased, and it has grown at a rate significant enough to overcome decreases in the other games. ■

State Revenue from Gaming, FY1994 - 2000 (Dollars in Thousands)

	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000
Bingo						
Tax	\$ 7,347.7	\$ 7,148.3	\$ 6,756.0	\$ 6,464.3	\$ 5,846.4	\$ 5,510.9
Licenses	335.8	332.4	317.5	300.1	290.8	253.0
	\$ 7,683.5	\$ 7,480.7	\$ 7,073.5	\$ 6,764.4	\$ 6,137.2	\$ 5,763.9
Pull Tabs & Jar Games						
Tax	\$ 6,809.2	\$ 7,196.1	\$ 7,320.7	\$ 7,147.9	\$ 7,068.4	\$ 7,553.0
Licenses	731.9	722.4	709.7	692.4	694.6	645.9
	\$ 7,541.1	\$ 7,918.5	\$ 8,030.4	\$ 7,840.3	\$ 7,763.0	\$ 8,198.9
Charitable Games						
Tax	\$ 515.4	\$ 216.8	\$ 182.6	\$ 139.7	\$ 126.4	\$ 111.2
Licenses	53.2	95.6	55.2	45.5	43.0	39.2
	\$ 568.6	\$ 312.4	\$ 237.8	\$ 185.2	\$ 169.4	\$ 150.4
River Boats						
Wagering Tax	\$ 218,190.8	\$ 242,259.5	\$ 210,416.0	\$ 210,496.5	\$ 309,829.5	\$ 435,978.4
Admission Tax	46,384.8	51,312.2	49,611.0	49,278.6	51,207.8	38,245.0
License/Fees	1,347.0	1,427.4	1,095.2	1,224.5	1,084.9	1,265.0
	\$ 265,922.6	\$ 294,999.1	\$ 261,122.2	\$ 260,999.6	\$ 362,122.2	\$ 475,488.4
Horse Racing						
Privilege Tax	\$ 28,311.4	\$ 28,157.9	\$ 28,213.0	\$ 26,474.7	\$ 25,827.2	\$ 17,735.1
Breakage Tax	7,669.8	7,842.4	7,122.7	6,515.7	6,015.7	2,988.9
H.R.T.A. Tax	5,075.1	5,536.7	4,965.0	4,953.8	5,209.7	2,940.1
Uncashed Tickets	3,323.9	3,339.6	4,299.2	4,762.7	4,548.9	-
Admission Tax	1,487.1	1,294.5	1,233.4	1,101.0	998.2	966.7
License/Fees/Misc.	1,433.7	2,816.0	1,414.3	1,376.2	1,309.2	1,361.3
	\$ 47,301.0	\$ 48,987.1	\$ 47,247.6	\$ 45,184.1	\$ 43,908.9	\$ 25,992.1
Lottery						
Net Ticket Sales	\$ 886,267.5	\$ 879,563.6	\$ 888,979.0	\$ 834,694.9	\$ 844,885.0	\$ 814,280.6
Total	\$ 1,215,284.3	\$ 1,239,261.4	\$ 1,212,690.5	\$ 1,155,668.5	\$ 1,264,985.7	\$ 1,329,874.3

Source: Office of the Comptroller.



State Spending on Gaming

Illinois, like other states, relies on revenues generated from gaming. But there are costs involved as well, primarily state agency operating expenditures. State government licenses and regulates horse racing and riverboat gaming through the Illinois Racing Board and the Illinois Gaming Board, respectively. The Department of the Lottery, in conjunction with the Lottery Control Board, administers lottery sales. Operational expenses for these three agencies have increased steadily from fiscal year 1991 to fiscal year 1999, reaching a total of \$84.4 million. In fiscal year 2000, the total dropped to \$80.5 million due to a decrease in expenditures by the Department of the Lottery.

Because the lottery is administered by the state, operating expenses such as employee salaries, online computer services, game development and advertising are paid for out of gross ticket sales. The Department of the Lottery has the largest staff with

approximately 295 employees compared to about 60 employees for the Gaming Board and 40 employees for the Racing Board.

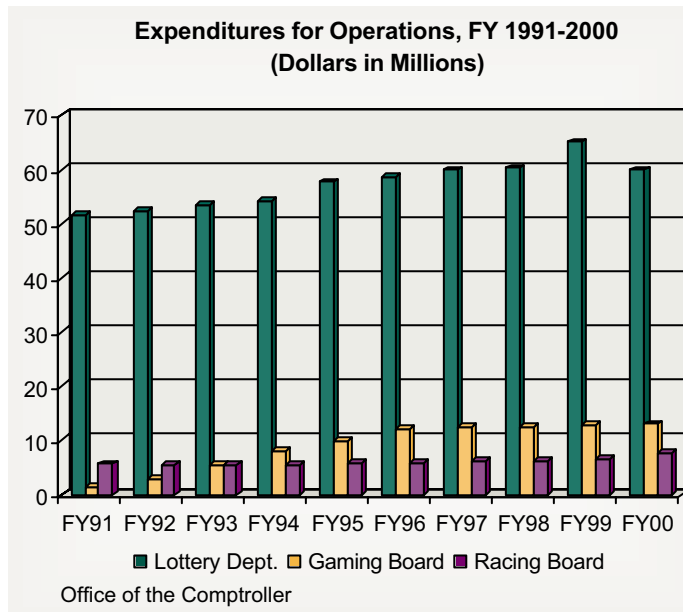
Despite the high number of employees, a large share of the Lottery Department's spending is for advertising and promotion. Based on a survey by International Gaming & Wagering Business, Illinois spent \$26.8 million in FY 1999 on media advertising and promotions. This amount was 1.76% of ticket sales and ranked

(3.44%) and South Dakota had the lowest (0.14%). Comparisons are difficult because the reporting of advertising and promotion expenditures can vary widely from state to state.

While a large share of the Lottery Department's dollars are spent on advertising, the Racing Board's expenditures tend to be for personal services. In addition to employees in the general office, the Racing Board supports a laboratory division that conducts drug tests on horses, jockeys, and harness drivers. The racing division, which handles licensing and allocates racing dates, employs stewards, pari-mutuel directors, veterinarians, and clerks.

The Gaming Board is responsible for licensing riverboat owners, employees, and suppliers. It conducts background checks and investigations, and audits financial records. The majority of operating expenditures include personnel services and contractual services. The contractual services cover spending for State Police troopers.

The mix of expenditures between these agencies should not be too surprising because of their different roles and responsibilities. In the case of the lottery, the government manages the gaming. In the case of horse racing or riverboats, private enterprise manages the gaming according to state laws and regulations. In all cases, however, there are financial costs to state government. Gaming generates revenues for Illinois, but certain expenses have to be met as well. ■



Illinois 11th among the states surveyed. Missouri had the highest percentage

Stacks Up concluded

A 1985 amendment to Illinois' law requires that all net lottery revenue go to the Common School Fund to support kindergarten through 12th grade public education. Approximately \$515 million was transferred to the Common School Fund in fiscal year 2000, down from the

\$540 million transferred in fiscal year 1999.

Of the states that have lotteries, the majority have lottery commissions solely dedicated to regulating and operating the lottery games. In Illinois, the Lottery Control Board advises the Lottery direc-

tor regarding the operations of the State Lottery. The board also conducts hearings on complaints or violations and establishes the departments advertising policy. The lottery commissions in Idaho, Massachusetts, Michigan, and Texas also oversee charitable gaming. ■

had played video poker.

Adult gambling addiction is believed to have increased from about 0.8 percent of the adult population in 1975 to the current 5-10 percent estimates. In New Jersey, calls to gambling hotlines jumped from 1,200 a year to 32,000 a year after casinos were introduced. In Louisiana, there was a fivefold increase in the number of people seeking help with gambling problems between 1991 and 1994, when riverboat and electronic gaming boomed.

The National Gambling Impact Study Commission estimates in their 1999 report that 15.4 million Americans suffer from problem gambling. The percentages vary not only from state to state, but also within a state. A 1997 study commissioned by the Connecticut Department of Revenue found that 47 percent of gambling patrons interviewed were identified as problem or pathological gamblers. However, a phone survey of Connecticut residents, also conducted as part of the Department of Revenue study, found a pathological gambling rate of only 1.2 percent in the general population.

Addictive gamblers are closely associated with family problems, bankruptcies, accidents, crime and suicide. One study found that among compulsive gamblers, 22 percent divorced because of gambling, 40 percent had lost or quit a job due to gambling, 49 percent stole from work to pay gambling debts, 23 percent were alcoholic, and 79 percent said they wanted to die.

The costs associated with these situations are high. A Maryland study estimated that the total indebtedness of problem gamblers was \$4 billion, and that they cost the state \$1.5 billion annually. A 1995 study of the economic impact of Wisconsin's tribal casinos found that the effects of compulsive gambling (increased welfare expenditures, lost work productivity, embezzlement, etc.) cost the state between \$318 million and \$483 million per year. In general, the public costs of a problem gambler are said to range from \$13,000 to \$30,000 per year.

State Assistance

Maryland established the first public pro-

gram to help problem gamblers in 1978, but no money is being spent now because the gaming industry has succeeded in defeating every legislative bill introduced to help problem gamblers.

Missouri has a program that allows compulsive gamblers to bar themselves from casinos for life, while in Michigan, the lottery, racetracks and casinos contribute a percentage of gaming revenue to a compulsive gambling prevention and treatment fund. In Oregon, the legislature provides \$2 million a year in net proceeds from the lottery to fund a treatment program for gamblers and their families.

Illinois has a law that provides for a program of public education, research and training, and for the treatment and prevention of problem and compulsive gambling. However, no money has been appropriated to implement that program. In addition, recent legislation introduced to establish pilot intervention programs for problem gamblers did not pass out of committee.

The Illinois Gaming Board is pursuing the issue. The Board recently held a symposium on the subject of problem gambling, has added several toll-free hotline numbers to its Internet web page, and is reviewing programs in other states such as Missouri's self-exclusion policy. The Department of Human Services (DHS) has set aside about \$1 million of its FY 2001 budget for staff training and certification, and for a public awareness campaign including the advertisement of a toll-free (1-800) hot line on signs visible at the riverboats. And the Department of the Lottery advertises assistance for problem gamblers by printing a toll-free hotline number on all tickets.

Council of State Governments

A panel of state officials and gambling experts assembled with the Council of State Governments developed recommendations for dealing with problem gambling. They proposed that states should:

- Establish a stable source of funding for compulsive gamblers based on actual needs, not a simple set-aside of a flat amount or percentage;
- Establish training programs for state

Fiscal Forum

Last month's question concerned the issue of whether state and local government tax structures need to be adjusted to meet the challenges posed by social, economic and technological change. The question and the close response from our readers are presented below:

Should a study commission be established to examine Illinois' entire tax structure in light of current and projected economic changes such as the growth in services, and sales over the Internet?

YES 54%
NO 46%

This month's question concerns the amount of gaming in Illinois.

Has Illinois reached a gaming saturation point where people will no longer wager more of their income and where there is stagnation in the revenues derived from gambling?

YES ☐ NO ☐

To respond to this question, simply log onto the Comptroller's Web site at www.ioc.state.il.us.

and/or private employees to more effectively deal with compulsive and underage gambling, and require casino operators to provide training programs for their employees;

- Consider credit controls to limit problem gambling;
- Advertise support systems (education, prevention and treatment) for casino and lottery players;
- Consider revocation of drivers' licenses or other penalties for underage violators;
- Develop collaborative efforts between governmental and private gaming entities and the law enforcement community; and
- Establish a clearinghouse to disseminate research findings on problem gambling issues. ■

Wagering in Illinois

Illinois state law authorizes seven forms of gaming. Wagering on horse racing was legalized in 1927 followed by bingo in 1971, the state lottery in 1974, charitable games in 1986, off-track betting parlors in 1987, pull tabs and jar games in 1988, and riverboat casinos in 1990. The introduction of riverboat gaming has boosted the level of wagering considerably. Wagering totaled about \$3 billion a year prior to riverboats, but more than doubled to \$6.7 billion by fiscal year 1993 when a majority of the riverboats were operational (*see Wagering in Illinois table*). By fiscal year 1999 the amount

patrons to board and gamble.

There is a slight downward trend in lottery ticket sales and in the amount bet on horse racing. Both of these are relatively flat sources of revenue, and since receipts have not plunged sharply downward since the introduction of riverboat gaming, some analysts are optimistic that these three major forms of gaming can continue to coexist. Others have suggested that Illinois is approaching a saturation point in which there will be stagnation in the amount people wager and in the amount of revenue collected from gaming. The smaller games such as bingo and charitable games have peaked and are now declining, but wagering on pull tabs and jar games remains steady.

Wagering in Illinois
(Dollars in Millions)

Fiscal Year	Lottery	Horse Racing*	River Boats	Bingo	Pull Tabs/Jar Games	Charity	Total *	% Annual Growth
1990	\$ 1,570	\$ 1,252	\$ -	\$ 155	\$ 65	\$ 7	\$ 3,049	-----
1991	1,566	1,248	-	155	76	9	3,054	0.1 %
1992	1,637	1,291	618	157	91	12	3,806	24.6
1993	1,576	1,282	3,520	156	105	17	6,656	74.9
1994	1,529	1,239	8,925	149	126	19	11,987	80.1
1995	1,629	1,202	13,500	147	144	17	16,639	38.8
1996	1,637	1,233	16,068	143	144	7	19,232	15.6
1997	1,623	1,187	14,516	135	146	6	17,613	-8.4
1998	1,577	1,087	16,420	129	143	5	19,361	9.9
1999	1,524	1,104	20,576	117	141	4	23,466	21.2
2000	1,504	NA	24,213	110	151	4	25,982	NA

* 2000 Total does not include horse racing which is reported on a calendar year basis.

Source: Illinois Department of the Lottery, Illinois Racing Board, Illinois Gaming Board, Illinois Department of Revenue, Office of the Comptroller.

wagered in Illinois approached \$23.5 billion. As a point of comparison, the amount wagered exceeded the State of Illinois' total general funds appropriations (\$19.9 billion) for fiscal year 1999.

This level of betting represents wagers of \$1,938 per capita. It also equates to an average of \$64 million being wagered in Illinois on a daily basis. The greatest amount is bet on riverboat casinos (\$56.4 million per day), followed by the lottery (\$4.2 million per day), and horse racing (\$3.0 million per day).

The wagering trends are obvious. Casino betting on the riverboats has continued to grow significantly increasing over \$4 billion or 25.3% from 1998 to 1999. A major factor affecting the recent growth of riverboat gambling was the introduction of dockside gambling in June of 1999. Riverboats are no longer required to cruise and it is more convenient for

from gambling. Higher levels of gambling (horse racing and casinos) require greater state involvement such as state auditors or state police. In the case of lotteries, states may actually administer the activity.

Three Illinois state agencies are involved in gaming (four counting the law enforcement assistance of the State Police). The Department of Revenue, which includes the Illinois Gaming Board, oversees charitable games, pull tabs and jar games, bingo, and riverboat gaming. The Department of the Lottery administers six lottery games including instant games, the Lotto, and the multi-state Big Game. The Illinois

A Closer Look at Illinois Gaming

Legalized gambling enables state governments to ensure the honesty and integrity of an activity, and to raise revenue. At a minimum, state regulation of gaming is usually accomplished by requiring licenses to operate, and by levying taxes on the gross receipts

National Gaming Revenues
(Dollars in Millions)

	1982	1997	1998	% Change 1997-98
Lotteries	\$ 2,170.0	\$ 16,497.6	\$ 16,680.2	1.1 %
Casinos	4,200.0	14,357.4	14,983.1	4.4
Indian Gaming	-	6,833.2	8,167.3	19.5
Riverboats	-	6,170.5	7,293.9	18.2
Horse Racing	2,250.0	3,245.0	3,306.8	1.9
Charitable Games	396.0	1,562.2	1,598.1	2.3
Bingo	780.0	956.9	972.2	1.6
Card Rooms	50.0	700.2	739.4	5.6
Internet Gambling *	-	300.0	651.2	117.1
Greyhounds	430.0	506.0	493.7	-2.4
Legal Bookmaking	25.8	96.3	71.6	-25.6
Jai-Alai	112.0	48.4	45.2	-6.6
Total *	\$ 10,413.8	\$ 50,973.7	\$ 54,351.5	6.6 %

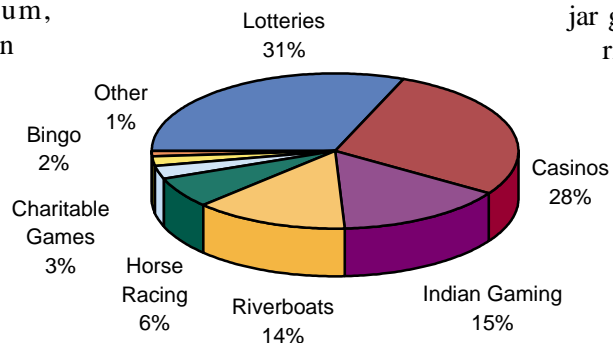
* Internet gambling not included in U.S. totals because it is international.
Source: International Gaming & Wagering Business, 1999

National Wager
(Dollars in Millions)

	1982	1997	1998	% Change 1997-98
Casinos	\$ 101,400.0	\$ 354,249.6	\$ 352,392.2	-0.5 %
Riverboats	-	115,817.8	135,505.7	17.0
Indian Gaming	-	81,931.5	99,355.7	21.3
Lotteries	4,088.3	46,103.9	48,531.8	5.3
Horse Racing	11,697.9	15,388.6	15,672.2	1.8
Card Rooms	1,000.0	10,423.6	11,007.3	5.6
Charitable Games	1,200.0	6,034.1	6,172.9	2.3
Bingo	3,000.0	3,910.4	3,972.9	1.6
Legal Bookmaking	538.0	2,572.9	2,406.1	-6.5
Greyhounds	2,208.6	2,251.1	2,204.1	-2.1
Jai-Alai	622.8	212.6	198.4	-6.7
Internet Gambling	NA	NA	NA	NA
Total	\$ 125,755.6	\$ 638,896.1	\$ 677,419.3	6.0 %

Source: International Gaming & Wagering Business, 1999

National Gaming Revenue, 1998



Source: International Gaming & Wagering Business, August 1999

Cover Story continued

Racing Board regulates thoroughbred and harness horse racing. Let's take a closer look at these forms of gaming and the revenue they generate in Illinois. [Note: the Focus on Revenue section provides a more detailed look at gaming revenues.]

Charitable Games - Nonprofit groups such as religious, educational, fraternal, veterans' or labor organizations may operate games such as roulette, blackjack, poker, craps, keno or a merchandise wheel where no single bet may exceed \$10. An annual \$200 license is required, as well as a 3% tax on the gross receipts from the charitable games. Approximately \$150 thousand was raised in fiscal year 2000. License fees and taxes are deposited in the Illinois Gaming Law Enforcement Fund.

Pull Tabs and Jar Games - Pull tabs and jar games use tickets or a card with hidden numbers or symbols where players choose a ticket or position on the card to see if they are a winner.

An annual \$500 license is required to operate such games, and the state tax is

5% of the gross receipts. About \$8.2 million was collected in fiscal year 2000. Fifty percent of the license fees and taxes are deposited in the Common School Fund and fifty percent are deposited in the Illinois Gaming Law Enforcement Fund.

Bingo - Nonprofit groups may also operate bingo games in Illinois. Bingo games require a \$200 annual license and the state tax is 5% of the gross receipts. Approximately \$5.8 million was collected in fiscal year 2000. License fees are deposited in the General Revenue Fund, and fifty percent of the receipts tax goes to the Common School Fund and fifty percent goes to the Mental Health Fund.

Lottery - Lotteries have been in existence for centuries. There is evidence the Great Wall of China was financed in part by a lottery, although the first publicly run European lottery was in 1530 in Florence, Italy. In the

United States, lotteries were popular in

the 1700s as states used them to help finance their militias, and colleges and hospitals used them to finance capital projects. At the end of the Civil War southern states turned to lotteries to help finance reconstruction. Abuses led to a public backlash, and many states, including Illinois in its 1870 Constitution, prohibited lotteries.

Lotteries in particular, but also gambling in general, remained socially unacceptable from about 1900 to 1960. The floodgates were opened in 1964, however, when New Hampshire voters approved a new state lottery. Sparked by a desire to raise revenue without imposing a sales or income tax, New Hampshire's decision was soon copied by other states. Between 1965 and 1990, 30 other states enacted lotteries followed by 6 more states in the 1990s.

Illinois joined the rush in 1974. The public relations pitch was based on the argument that the net proceeds from the



Lottery Sales by Game
(Dollars in Millions)

	FY 1998	FY 1999	FY 2000
Instant	\$ 618.3	\$ 570.1	\$ 541.5
Pick 3	344.7	335.3	341.4
Big Game	93.8	193.5	219.3
Pick 4	145.3	144.5	154.4
Lotto	263.0	168.8	146.3
Little Lotto	111.8	113.7	101.0
Total	\$ 1,576.9	\$ 1,525.9	\$ 1,503.9

Source: Illinois Department of the Lottery.
FY 2000 figures are preliminary.

Legal Forms of Gaming - National Wagering Data

	Alabama	Alaska	Arizona	Arkansas	California	Colorado	Connecticut	Delaware	Florida	Georgia	Hawaii	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine	Maryland	Massachusetts	Michigan
Bingo	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Horse Racing	◆		◆	◆	◆	◆	◆	◆	◆			◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Charitable Games		◆	◆		◆	◆	◆	◆	◆			◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Lottery Games			◆		◆	◆	◆	◆	◆	◆		◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆
Indian Bingo	◆	◆	◆		◆	◆	◆		◆			◆		◆	◆			◆	◆			◆
Off-track Wagering			◆		◆	◆	◆						◆	◆			◆	◆	◆	◆		
Indian Casinos			◆		◆	◆	◆		◆			◆			◆	◆		◆				◆
Greyhounds	◆		◆	◆		◆	◆		◆			◆			◆	◆					◆	
Casinos/River Boats						◆							◆	◆	◆			◆				◆
Card Rooms					◆	◆			◆					◆						◆		
Non-Casino Devices															◆			◆		◆		
Sports Betting																						
Jai-alai							◆		◆													

Source: International Gaming & Wagering Business, September 1999.

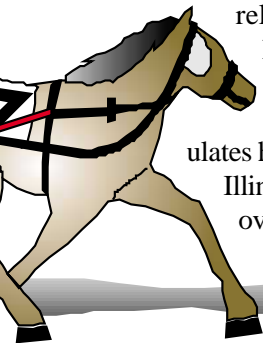
*Operative, but no pari-mutuel wagering.



lottery would go to fund education. Ticket sales revenue remaining after paying for prizes, retailer and vendor commissions, and operating expenses is transferred to the Common School Fund that helps support elementary and secondary education. The amount transferred to the Common School Fund has decreased the past few years due to stagnant ticket sales and increasing commission and operating expenses. \$515 million was transferred to the Common School Fund in fiscal year 2000, down from the \$540 million transferred in fiscal year 1999. The Lottery Sales by Game table shows the amount of gross sales for the various lottery games in fiscal years 1998-2000.

Horse Racing and Off-Track Betting -

Betting on horse races, like lotteries, is an old practice, but one that is seen by some practitioners as requiring more skill and knowledge than simply relying on chance.



Perhaps that is part of the allure of betting on horses. The state regulates horse racing through the Illinois Racing Board that oversees a vast industry that includes owners, trainers,

grooms, jockeys, harness drivers, veterinarians, and track owners and employees.

There are two types of horse racing in Illinois, thoroughbred racing and harness racing. The Racing Board establishes an

1999 Local Government Revenues from Off-Track Betting Parlors

City	County	Revenue*
Alton	Madison	\$ 126,462
Bloomington	McLean	116,080
Carbondale	Jackson	77,174
Champaign	Champaign	101,949
Chicago	Cook	713,465
Chicago	Cook	599,759
Chicago	Cook	495,167
Chicago	Cook	410,301
Crestwood	Cook	725,021
Danville	Vermilion	77,026
Effingham	Effingham	43,704
Grayville	White	69,466
Joliet	Will	95,015
Joliet	Will	191,968
North Aurora	Kane	286,484
Oakbrook Terrace	DuPage	791,073
Peru	LaSalle	56,459
Rockford	Winnebago	242,229
Springfield	Sangamon	127,808
Waukegan	Lake	446,559
Total		\$ 5,793,169

* Cities and counties each receive 1% of the OTB handle.
Source: Illinois Racing Board.

annual racing schedule for each of the race tracks, and is also responsible for licensing off-track betting facilities (OTBs). In addition to live racing in Illinois, wagering can also occur on

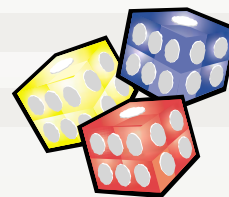
simulcasts of races held in other states. The racetracks include Arlington International Racecourse, Sportsman's Park, Maywood Park, Hawthorne Racecourse, Balmoral Park, and Fairmount Park (Quad City Downs no longer has live races). Each racetrack is entitled to receive up to four OTB licenses (five for Fairmount Park), and the OTBs must be located within 90 miles of the racetrack (135 miles for downstate tracks). Currently there are 20 OTB licenses in operation.

The primary source of state revenue is a pari-mutuel tax of 1.5% imposed on the daily handle (total amount bet) at each racetrack, but there is also a 15 cents per person admission tax as well as various license fees charged to racing organizations and personnel. Horse racing taxes, licenses and fees brought in about \$43.9 million in fiscal year 1999.

Local governments that have an OTB facility receive a percentage of the handle, 1 percent for the city and 1 percent for the county (see *Local Government Revenues from OTB table*). Cook County benefits the most since it has five OTBs (\$2.9 million in 1999). Chicago

COVER STORY continued, page 10

Minnesota	Mississippi	Missouri	Montana	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota	Tennessee	Texas	Utah *	Vermont	Virginia	Washington	West Virginia	Wisconsin	Wyoming	Total
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	46
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	44
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	41
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	37
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	30
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	25
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	24
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	19
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	14
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	13
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	7
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	4
◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	◆	4



Cover Story continued

has four facilities (\$2.2 million), and Joliet and Will County have two facilities (\$287 thousand each).

The handle for horse racing has remained steady at about \$1.1 billion the past two years, but a significant change has occurred in the wagering. From 1994 to 1999 the percentage of the handle wagered on simulcast races has increased from 5% to 66%, and the percentage wagered on live Illinois races has dropped from 95% to 34% (see *Illinois Horse Racing Handle* bar chart).

Declining revenue led some horse racing enthusiasts to lobby the General Assembly for assistance. The result was the enactment of PA 91-40 in June of 1999. The new law significantly changed the structure of racing taxes and their distribution, and reduced the amount of money available to the state. One of the provisions of the new law is the creation of the Horse Racing Equity Fund that will receive 15 percent of the adjusted gross receipts from the Emerald Casino riverboat license relocating to Rosemont (see Riverboat Casinos discussion below). Receipts in the Horse Racing Equity Fund are to be disbursed as follows: 50 percent to the horsemen and 50 percent to the racetrack owners. Of the owner's share, 11.0 percent will go to Fairmount Park, 12.7 percent to Hawthorne Racecourse, 17.8 percent to Sportsman's Park, 11.8 percent to Balmoral Park, 30.8 percent to Arlington International/Quad City Downs, and 15.9 percent to Maywood Park. Based on a Gaming Board estimate that the Emerald Casino may generate \$300 million in annual revenue, analysts believe that some racetrack owners could receive more money from the equity fund than

from annual horse race wagering.

Riverboat Casinos - The acceptance of state lotteries seemed to pave the way for other forms of legalized gaming. Although Nevada legalized casino gaming in the 1930s, other states did not turn

to this form of gaming until the late 1980s and early 1990s. New Jersey authorized land-based casinos, but when Iowa legalized riverboat casinos in 1989, five other states followed suit, including Illinois, Indiana, Missouri, Mississippi, and Louisiana. Some argue that this action was taken because

lottery revenues were flat or decreasing. Others point out that there was an element of competition between the states because they were worried about the financial drain to neighboring states with casinos, and therefore wanted to attract as many gamblers as possible to their respective riverboats.

Illinois enacted the Riverboat Gambling

Act in February of 1990 and became the second state to legalize such gaming. The law allowed for 10 riverboat licenses, but the riverboats had to cruise. Each license authorized 1,200 gaming positions, and allowed for two boats to be operated at a single location. An admissions tax of \$2 per person and a wagering

tax of 20% of the adjusted gross receipts were imposed on riverboat gaming. In 1998 the wagering tax was changed from a flat tax to a graduated tax ranging from 15% to 35% of adjusted gross receipts. And as noted earlier, the law was changed again with the enactment of PA 91-40 in 1999 that now permits dockside gambling. The significance of this change can be seen in the table entitled *Impact of Change to Dockside Riverboat Gaming*. The adjusted gross receipts (AGR) increased \$28.8 million or 28% from \$102.6 million in June 1999 to \$131.4 million in July 1999, the first full month of dockside gaming.

There are only 9 riverboat licenses in operation at this time. H.P., Inc. operated the Silver Eagle riverboat in East Dubuque from June of 1992 until July of 1997 when its license renewal was denied by the Illinois Gaming Board. However, H.P., Inc. has changed its name to Emerald Casino, Inc. and has applied to have its license renewed. Other provisions of PA 91-40 allow the inactive 10th

license to relocate to Cook County, and it is expected that the Emerald Casino will move to

Rosemont, although it

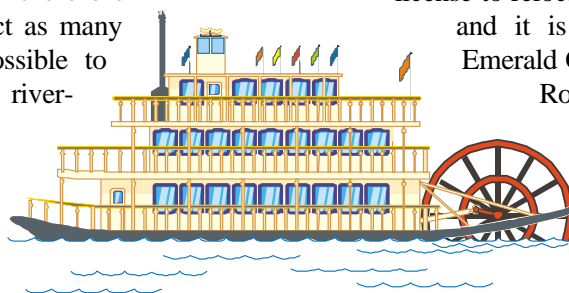
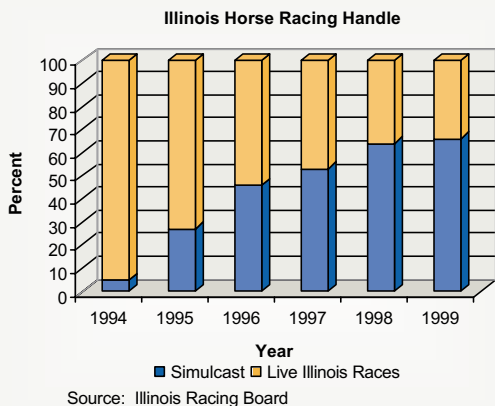
might take a while to become operational.

Lake County developers chal-

lenged the constitutionality

of the 1999 law, and the litigation is pending. Once operational, though, 15% of its adjusted gross receipts will go to racetrack owners and horsemen.

The adjusted gross receipts for the nine operational riverboats were about \$1.6



COVER STORY continued page 11

Impact of Change to Dockside Riverboat Gaming

	July 1998	June 1999	July 1999	Percent Change	
				Same Month Previous Year	Previous Month Same Year
Adjusted Gross Receipts	\$97,649,269	\$102,639,325	\$131,403,110	34.6%	28.0%
Admissions*	2,243,179	1,963,932	1,755,834	-21.7%	-10.6%

* When dockside gaming began on 6/26/99, the definition of admissions changed to reflect the number of patrons entering the gaming areas. Previously, attendance figures included separate counts for patrons and for admissions (the number of cruises a patron took).

Source: Illinois Gaming Board

Cover Story continued

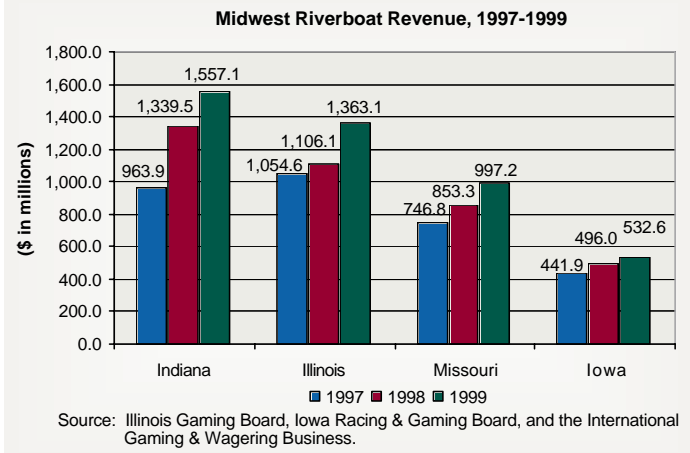
billion in fiscal year 2000 (see *Illinois Riverboat Statistics table*). Illinois collected about \$362 million in fiscal year 1999 from riverboat taxes and licenses and fees. This amount jumped to \$475.5 million in fiscal year 2000. All fees and taxes collected are deposited in the State Gaming Fund, but 5% of each boat's adjusted gross receipts go to the local government where the boat is docked, and 50% of the \$2 per person admission tax also goes to the local government (see discussion below). Net amounts remaining after paying local governments, the Department of State Police for enforcing the Riverboat Gambling Act, and the operations of the State Gaming Board are transferred to the Education Assistance Fund (EAF).

State government is not the sole beneficiary of the taxes imposed on riverboats. Local governments where the riverboats are based receive one-half of the admissions tax (\$1 per person), and 5% of the adjusted gross receipts. The

table on local government tax shares ranks the riverboats and the corresponding shares for fiscal years 1998-2000. The largest amount provided by a single license is the \$22.3 million returned to Elgin by the Grand Victoria in fiscal year 2000. However, Joliet, which has four riverboats operated by two licensees, received \$29.3 million.

If competition is a factor in riverboat gaming, Illinois is faring well. Illinois' riverboats are second to Indiana's in terms of total revenue, but remain ahead of the riverboats in Missouri and Iowa (see *Midwest Riverboat Revenue bar chart*). Indiana's lead is sparked by a very successful riverboat named the Argosy that is located on the Ohio River near Cincinnati. In 1999 the Argosy had over 3 million admissions (turnstile count) and over \$300 million in gaming revenue.

The good news for state and local governments is that experts believe the revenue growth for riverboat gaming will continue. Although there is not a lot of new capacity, improvements in marketing, hotel facilities, parking facilities, and the economy in general have spurred more riverboat gambling. The trend is now away from day trips to more overnight stays, and people who stay overnight tend to spend more on gaming, shows and meals.



right to prohibit activities that tend to prey on the poor and are especially harmful to some, such as those who become addicted to gambling.

There is little doubt that campaigns to introduce or expand gaming have cited economic development as a reason to legalize gambling. Proponents insist that gaming creates new jobs and brings in additional tax dollars. However, actual results are mixed. Some communities have seen economic growth and some have not. A number of reports have found few net economic benefits from gaming and, in some cases, actual declines.

As researchers look more closely at the social effects of gaming they are beginning to note some distressing trends. As the number of addicted and compulsive gamblers grows, so do the costs to society in terms of lost wages, additional law enforcement, bankruptcies, and even suicides. Another concern is the spread to juveniles. One survey in Massachusetts

reported that minors as young as nine years old were able to buy lottery tickets on eighty percent of their attempts, and that seventy-five percent of high school seniors reported playing the lottery (see *Fiscal Smarts*).

FY 2000 Illinois Riverboat Statistics

Riverboat(s)	Location	Casino Square Footage	Attendance	Adjusted Gross Receipts
Grand Victoria	Elgin	29,850	3,607,894	\$ 374,666,509
Northern and Southern Star	Joliet	37,160	2,387,079	263,261,142
Empress I and II	Joliet	36,266	2,539,641	224,731,210
City of Lights I and II	Aurora	32,100	2,845,450	211,890,104
Casino Queen	East St. Louis	27,500	2,185,336	154,536,315
Par-A-Dice	East Peoria	26,116	1,848,899	127,385,085
Players River Boat Casino	Metropolis	22,150	1,458,371	104,421,953
Alton Belle	Alton	23,000	1,680,240	103,181,554
Casino Rock Island	Rock Island	13,200	688,567	25,346,308
Total		247,342	19,241,477	\$ 1,589,420,180

Source: Illinois Gaming Board.

Unsettled Issues

Gambling, like other controversial issues, is a classic case of individual rights versus societal good. Arguments for or against it often focus on the clash between an individual's right to pursue this type of entertainment and society's

**Local Government Tax Shares, FY1998 - FY2000
(Admissions and Wagering Taxes)**

Riverboat(s)	Local Government	FY 1998	FY 1999	FY 2000
Grand Victoria	City of Elgin	\$16,146,069	\$17,335,610	\$22,341,219
Northern Star and Southern Star	City of Joliet	10,678,709	12,135,108	15,550,136
Empress I and II	City of Joliet	10,256,789	11,910,421	13,776,202
City of Lights I and II	City of Aurora	11,107,226	11,794,899	13,439,955
Casino Queen	City of East St. Louis	9,272,726	9,455,346	9,912,152
Par-A-Dice	City of East Peoria	7,519,666	7,773,696	8,218,153
Alton Belle	City of Alton	5,299,442	5,653,117	6,839,318
Players River Boat Casino	City of Metropolis	6,162,276	6,064,642	6,679,469
Casino Rock Island	City of Rock Island	1,428,761	1,267,677	1,955,882
Silver Eagle *	JoDaviess County	9,229	0	0
Total		\$77,880,893	\$83,390,516	\$98,712,486

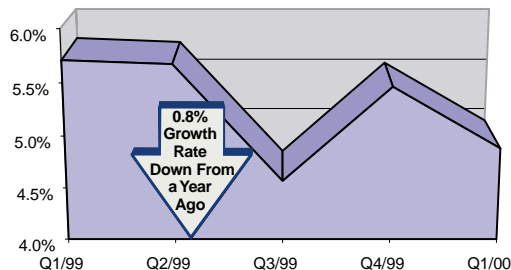
* Owners of the Silver Eagle have a license to operate a new riverboat called the Emerald Casino that will likely be located in Rosemont.

Source: Illinois Gaming Board

COVER STORY continued back page

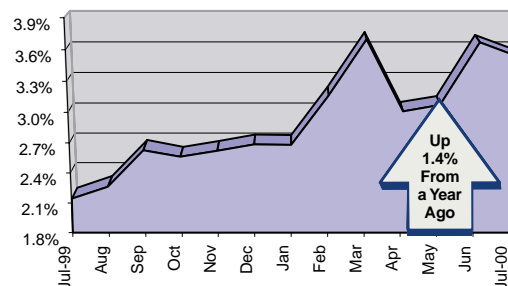
Illinois Stats: Economic and Financial

Illinois Personal Income
Change From Prior Year (Reported Quarterly)

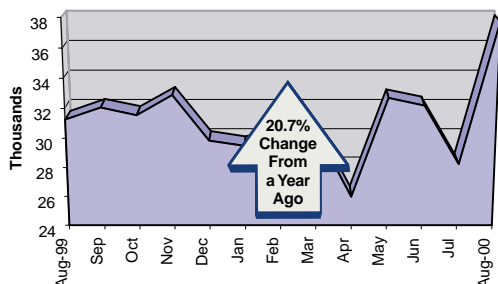


The August Illinois unemployment rate equaled 4.2%, the forty-third consecutive month this rate has been below 5.0%. The August Illinois rate was 0.1% greater than the August national rate, 0.1% less than the July Illinois rate, and 0.2% below its prior year level. In July the national inflation rate was up 3.5% from its year earlier level. Finally, the August Chicago Purchasing Managers Index (46.5) failed to be an economic growth indicator for the first time in nineteen months. Any index below 50 indicates more reports of decreasing economic activity than increasing activity from purchasing managers.

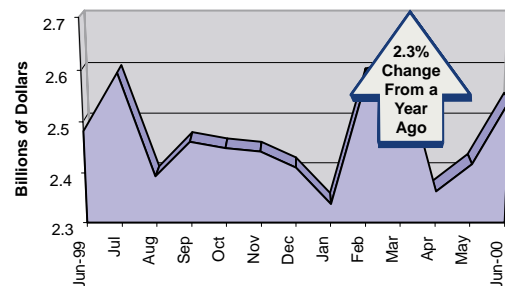
Inflation Rate
Change From Prior Year



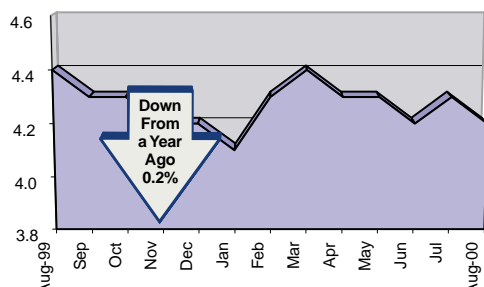
New Claims Unemployment Insurance



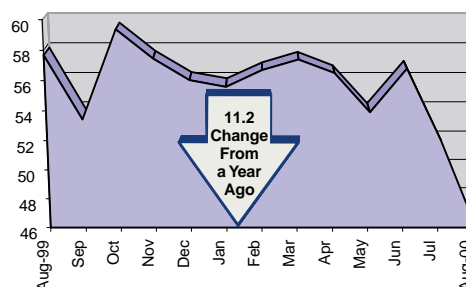
Illinois Direct Exports



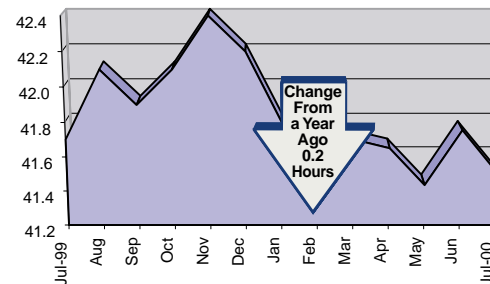
Illinois Unemployment Rate



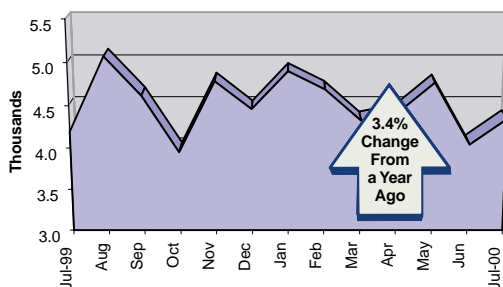
Chicago Purchasing Managers Index



Average Hours Worked Illinois Manufacturing

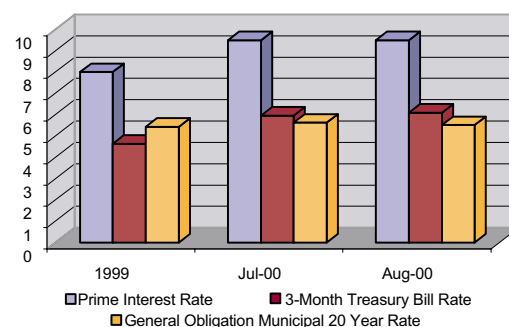


Illinois Housing Permits

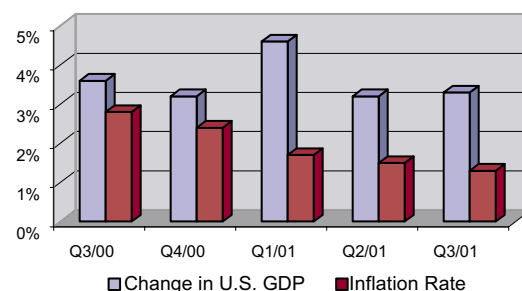


The latest Standard & Poor's DRI forecast of the U.S. economy continues the ideals of healthy economic growth and sustained low inflation through the third quarter of calendar 2001. During the next five quarters, U.S. real Gross Domestic Product (GDP) is expected to increase at annual rates varying between 3.2% and 4.6% each quarter. Despite this very healthy rate of economic growth, the inflation rate is forecast to remain less than 2.8% during the same period.

Interest Rate Trends



Economic Outlook



Sources:

Illinois Department of Employment Security:
Hours Worked in Manufacturing, Unemployment Insurance Claims

U.S. Census Bureau:

Direct Exports, Housing Permits

U.S. Bureau of Labor Statistics:

Unemployment Rates, Consumer Price Index

U.S. Bureau of Economic Analysis:

Personal Income

Purchasing Managers Association of Chicago:

Purchasing Managers Index

Standard & Poor's DRI:

Economic Forecasts

Federal Reserve System:

Interest Rates

Vital Statistics

The Heartbeat of Illinois' Finance

General Funds Cash Balance Decreases \$525 Million in August

After falling by \$175 million in July, the cash balance in the General Funds dropped by another \$525 million in August. The balance of \$1.517 billion at the beginning of the fiscal year dipped to \$817 million by the end of August, a decrease of 46.1%. Last fiscal year the balance declined by \$244 million or 18.1% over the same time period. All of the decline in the General Funds balance can be attributed to the General Revenue Fund which started the year at \$997 million and ended August at \$243 million, a drop of \$754 million or 75.6%.

Four factors help explain this year's significant decline in the General Funds balance. First, the General Funds balance typically declines between the beginning of the fiscal year and the end of August. In fact, in eight of the prior ten fiscal years this has been the case, with an average decrease of \$108 million over that ten-year period. Second, \$260 million was transferred in July from the General Revenue Fund to the Fund for Illinois' Future as part of the Governor's Illinois FIRST infrastructure program. Third, the rate of spending from current year appropriations is approximately \$157 million ahead of last year's pace. Fourth, the less than stellar revenue performance (an increase of only \$12 million or 0.3%) through the first two months of this fiscal year is well below both the 2.2% increase experienced last year and the 3.5% increase projected for fiscal year 2001.

General Funds Revenues Through Two Months - Up 0.3% Over FY 2000

Through two months of fiscal year 2001, General Funds revenues totaled \$3.488 billion, \$12 million or 0.3% higher than last year. A large decline in other transfers in

(down \$111 million or 61.7%) and decreases in the corporate income tax (down \$19 million or 36.5%), federal revenues (down \$15 million or 2.2%) and insurance taxes and fees (down \$7 million or 46.7%) largely offset increases in several state sources of revenue.

The decrease in other transfers in is due to the fact that last fiscal year a \$76 million transfer from the Income Tax Refund Fund and a \$36 million transfer from the University of Illinois Hospital Services Fund were made to the General Revenue Fund. Through two months of fiscal year 2001, only \$2.4 million has been transferred from the University of Illinois Hospital Services Fund.

Revenue sources that have increased over the first two months of the fiscal year include: personal income taxes (up \$41 million or 4.2%), sales taxes (up \$15 million or 1.5%), public utility taxes (up \$19 million or 11.2%), inheritance taxes (up \$21 million or 45.7%), investment income (up \$18 million or 52.9%), lottery transfers (up \$10 million or 18.2%) and riverboat gambling transfers (up \$26 million or 38.8%)

Although the 1.5% (\$15 million) increase in sales tax receipts seems anemic, that increase reflects the loss of an estimated \$25 to \$30 million in August due to the temporary exemption of motor fuel sales from the tax base.

General Funds Spending Through Two Months Up 12.6% Over FY 2000

Through August, General Funds cash spending totaled \$4.188 billion, \$468 million or 12.6% above last year. The \$468 million increase includes a \$99 million decrease in lapse period spending, a \$334 million increase in spending from current year appropriations, and a \$248 million increase in transfers out.

Awards and grants spending increased \$149 million or 6.5% while operations increased \$103 million or 9.6%, transfers out jumped \$248 million or 73.2% (including the \$260 million Illinois FIRST transfer) and all other spending decreased \$32 million. After two months of fiscal year 2001, expenditures have exceeded revenues by \$700 million resulting in a decrease in the available cash balance from \$1.517 billion at the beginning of the fiscal year to \$817 million at the end of August.

Of the \$149 million increase in grant spending, Public Aid is up \$69 million or 9.4% through August while the Department of Human Services has increased by \$61 million or 11.6%. Awards and grants spending by the State Board of Education is down \$25 million or 5.6% while higher education grants have increased \$4 million or 2.3%.

Spending for operations totaled \$1.171 billion through August, \$103 million higher than comparable expenditures last year. Higher education operations are up 8.2% or \$19 million, while all other operations increased \$84 million (10.1%).

Budgetary Balance Will Set Record - However . . .

With the books nearly closed for fiscal year 2000, Illinois is poised to record its fourth consecutive balanced General Funds budget. Lapse period spending of \$735 million as of the end of August from an available balance of \$1.517 billion at the end of June, leaves the General Funds with a positive budgetary balance of \$782 million to this point - well above last year's record budgetary balance of \$503 million. The \$279 million increase in the budgetary balance as of the end of August includes a \$99 million increase in the General Revenue Fund and a \$180 million increase in the school funds.

Despite the fact that the General Funds will end the year at record levels, the significant drop in available cash to begin fiscal year 2001, particularly in the General Revenue Fund, bears close scrutiny in the coming months. Given that the General Revenue Fund balance (\$243 million) is \$528 million below last year at this time, and that last year's balance dipped as low as \$168 million on December 20th, \$103 million on March 3rd and \$130 million on March 13th, revenue and spending patterns similar to last year could very well result in payment delays. ■

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES (Dollars in Millions)

	July 1999	July 2000	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 1,351	\$ 1,517	\$ 166	12.3 %
Revenues	1,751	1,689	(62)	(3.5)
Expenditures	1,568	1,864	296	18.9
Ending Balance	\$ 1,534	\$ 1,342	\$ (192)	(12.5) %
General Revenue Fund				
Available Balance	\$ 1,016	\$ 997	\$ (19)	(1.9) %
Revenues	1,513	1,433	(80)	(5.3)
Expenditures	1,513	1,778	265	17.5
Ending Balance	\$ 1,016	\$ 652	\$ (364)	(35.8) %
Common School Special Account Fund				
Available Balance	\$ 68	\$ 69	\$ 1	1.5 %
Revenues	127	128	1	0.8
Expenditures	0	0	0	0.0
Ending Balance	\$ 195	\$ 197	\$ 2	1.0 %
Education Assistance Fund				
Available Balance	\$ 210	\$ 415	\$ 205	97.6 %
Revenues	74	87	13	17.6
Expenditures	6	28	22	366.7
Ending Balance	\$ 278	\$ 474	\$ 196	70.5 %
Common School Fund				
Available Balance	\$ 57	\$ 36	\$ (21)	(36.8) %
Revenues	37	40	3	8.1
Expenditures	49	57	8	16.3
Ending Balance	\$ 45	\$ 19	\$ (26)	(57.8) %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS REVENUES (Dollars in Millions)

	July 1999	July 2000	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 464	\$ 488	\$ 24	5.2 %
Corporate	34	21	(13)	(38.2)
Total, Income Taxes	\$ 498	\$ 509	\$ 11	2.2 %
Sales Taxes	511	516	5	1.0
Other Sources:				
Public Utility Taxes	76	68	(8)	(10.5)
Cigarette Taxes	30	33	3	10.0
Inheritance Tax (gross)	19	37	18	94.7
Liquor Gallonage Taxes	8	8	0	0.0
Insurance Taxes and Fees	12	5	(7)	(58.3)
Corporation Franchise				
Tax and Fees	8	15	7	87.5
Investment Income	16	21	5	31.3
Cook County IGT	54	54	0	0.0
Other	17	17	0	0.0
Total, Other Sources	\$ 240	\$ 258	\$ 18	7.5 %
Total, Cash Receipts	\$ 1,249	\$ 1,283	\$ 34	2.7 %
Transfers In:				
Lottery Fund	\$ 16	\$ 19	\$ 3	18.8 %
State Gaming Fund	38	50	12	31.6
Protest Fund	0	1	1	0.0
Other Funds	89	49	(40)	(44.9)
Total, Transfers In	\$ 143	\$ 119	\$ (24)	(16.8) %
Total, State Sources	\$ 1,392	\$ 1,402	\$ 10	0.7 %
Federal Sources:				
Cash Receipts	\$ 359	\$ 284	\$ (75)	(20.9) %
Transfers In	0	3	3	0.0
Total, Federal Sources	\$ 359	\$ 287	\$ (72)	(20.1) %
Total, Revenues	\$ 1,751	\$ 1,689	\$ (62)	(3.5) %

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	July 1999	July 2000	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 342	\$ 433	\$ 91	26.6 %
Elem. & Sec. Education:				
State Board of Education	85	39	(46)	(54.1)
Teachers Retirement	54	62	8	14.8
Total, Elem. & Sec. Education	\$ 139	\$ 101	\$ (38)	(27.3) %
Human Services	276	257	(19)	(6.9)
Higher Education	5	10	5	100.0
All Other Grants	136	126	(10)	(7.4)
Total, Awards and Grants	\$ 898	\$ 927	\$ 29	3.2 %
Operations:				
Other Agencies	\$ 389	\$ 417	\$ 28	7.2 %
Higher Education	84	96	12	14.3
Total, Operations	\$ 473	\$ 513	\$ 40	8.5 %
Transfers Out	\$ 215	\$ 443	\$ 228	106.0 %
All Other	\$ 4	\$ 3	\$ (1)	(25.0) %
Vouchers Payable Adjustment	\$ (22)	\$ (22)	\$ 0	0.0
Total, Expenditures	\$ 1,568	\$ 1,864	\$ 296	18.9 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT (Dollars in Millions)

	July 1999	July 2000	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 189	\$ 192	\$ 3	1.6 %
Other Personal Services	20	21	1	5.0
Total, Personal Services	\$ 209	\$ 213	\$ 4	1.9 %
Contribution Retirement	38	39	1	2.6
Contribution Social Security	14	14	0	0.0
Contribution Group Insurance	44	53	9	20.5
Contractual Services	41	35	(6)	(14.6)
Travel	2	2	0	0.0
Commodities	8	6	(2)	(25.0)
Printing	1	0	(1)	(100.0)
Equipment	4	9	5	125.0
Electronic Data Processing	5	5	0	0.0
Telecommunications	4	3	(1)	(25.0)
Automotive Equipment	1	1	0	0.0
Other Operations	102	133	31	30.4
Total, Operations	\$ 473	\$ 513	\$ 40	8.5 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS (Dollars in Millions)

	July 1999	July 2000	Change From Prior Year	
			\$	%
State Board of Education:				
General State Aid	\$ 0	\$ 0	\$ 0	0.0 %
Categoricals	85	39	(46)	(54.1)
Other	0	0	0	0.0
Public Aid	342	433	91	26.6
Human Services	276	257	(19)	(6.9)
Higher Education:				
Student Assistance Commission	3	4	1	33.3
Community College Board	0	0	0	0.0
Other	2	6	4	200.0
Teacher's Retirement	54	62	8	14.8
Children and Family Services	53	47	(6)	(11.3)
Aging	15	17	2	13.3
Revenue	8	5	(3)	(37.5)
All Other	60	57	(3)	(5.0)
Total, Awards and Grants	\$ 898	\$ 927	\$ 29	3.2 %

GENERAL FUNDS REVENUES, EXPENDITURES AND BALANCES (Dollars in Millions)

	Two Months			
	August 2000	FY 2001	Change From Prior Year	
			\$	%
Total General Funds				
Available Balance	\$ 1,342	\$ 1,517	\$ 166	12.3 %
Revenues	1,799	3,488	12	0.3
Expenditures	2,324	4,188	468	12.6
Ending Balance	\$ 817	\$ 817	\$ (290)	(26.2) %
General Revenue Fund				
Available Balance	\$ 652	\$ 997	\$ (19)	(1.9) %
Revenues	1,517	2,950	(35)	(1.2)
Expenditures	1,926	3,704	474	14.7
Ending Balance	\$ 243	\$ 243	\$ (528)	(68.5) %
Common School Special Account Fund				
Available Balance	\$ 197	\$ 69	\$ 1	1.5 %
Revenues	125	253	4	1.6
Expenditures	102	102	(56)	(35.4)
Ending Balance	\$ 220	\$ 220	\$ 61	38.4 %
Education Assistance Fund				
Available Balance	\$ 474	\$ 415	\$ 205	97.6 %
Revenues	83	170	28	19.7
Expenditures	233	261	66	33.8
Ending Balance	\$ 324	\$ 324	\$ 167	106.4 %
Common School Fund				
Available Balance	\$ 19	\$ 36	\$ (21)	(36.8) %
Revenues	177	217	(40)	(15.6)
Expenditures	165	222	(72)	(24.5)
Ending Balance	\$ 31	\$ 31	\$ 11	55.0 %

Note: Total General Funds excludes interfund transfers while the individual funds include such transfers. Numbers may not add due to rounding.

GENERAL FUNDS ANALYSIS OF EXPENDITURES (Dollars in Millions)

	Two Months			
	August 2000	FY 2001	Change From Prior Year	
			\$	%
Expenditures:				
Awards and Grants:				
Public Aid	\$ 368	\$ 802	\$ 69	9.4 %
Elem. & Sec. Education:				
State Board of Education	383	422	(25)	(5.6)
Teachers Retirement	61	123	15	13.9
Total, Elem. & Sec. Education	\$ 444	\$ 545	\$ (10)	(1.8) %
Human Services	328	585	61	11.6
Higher Education	169	179	4	2.3
All Other Grants	220	345	25	7.8
Total, Awards and Grants	\$ 1,529	\$ 2,456	\$ 149	6.5 %
Operations:				
Other Agencies	\$ 502	\$ 919	\$ 84	10.1 %
Higher Education	156	252	19	8.2
Total, Operations	\$ 658	\$ 1,171	\$ 103	9.6 %
Transfers Out	\$ 143	\$ 587	\$ 248	73.2 %
All Other	\$ 18	\$ 21	\$ (30)	(58.8) %
Vouchers Payable Adjustment	\$ (24)	\$ (47)	\$ (2)	N/A
Total, Expenditures	\$ 2,324	\$ 4,188	\$ 468	12.6 %

COMPARISON OF SPENDING FOR OPERATIONS BY OBJECT (Dollars in Millions)

	Two Months			
	August 2000	FY 2001	Change From Prior Year	
			\$	%
Personal Services:				
Regular Positions	\$ 196	\$ 388	\$ 9	2.4 %
Other Personal Services	22	43	3	7.5
Total, Personal Services	\$ 218	\$ 431	\$ 12	2.9 %
Contribution Retirement	40	80	3	3.9
Contribution Social Security	14	28	1	3.7
Contribution Group Insurance	52	105	18	20.7
Contractual Services	74	108	4	3.8
Travel	2	4	(1)	(20.0)
Commodities	16	22	0	0.0
Printing	1	1	(1)	(50.0)
Equipment	7	16	(1)	(5.9)
Electronic Data Processing	9	14	1	7.7
Telecommunications	12	15	3	25.0
Automotive Equipment	2	3	0	0.0
Other Operations	211	344	64	22.9
Total, Operations	\$ 658	\$ 1,171	\$ 103	9.6 %

COMPARISON OF SPENDING FOR AWARDS AND GRANTS (Dollars in Millions)

	Two Months			
	August 2000	FY 2001	Change From Prior Year	
			\$	%
State Board of Education:				
General State Aid	\$ 262	\$ 262	\$ 6	2.3 %
Categoricals	121	160	(31)	(16.2)
Other	0	0	0	0.0
Public Aid	368	802	69	9.4
Human Services	328	585	61	11.6
Higher Education:				
Student Assistance Commission	81	84	(1)	(1.2)
Community College Board	86	86	4	4.9
Other	2	9	1	12.5
Teacher's Retirement	61	123	15	13.9
Children and Family Services	84	131	(43)	(24.7)
Aging	24	41	6	17.1
Revenue	7	12	0	0.0
All Other	105	161	62	62.6
Total, Awards and Grants	\$ 1,529	\$ 2,456	\$ 149	6.5 %

GENERAL FUNDS REVENUES (Dollars in Millions)

	Two Months			
	August 2000	FY 2001	Change From Prior Year	
			\$	%
Revenues:				
State Sources:				
Cash Receipts:				
Income Taxes:				
Individual	\$ 539	\$ 1,026	\$ 41	4.2 %
Corporate	11	33	(19)	(36.5)
Total, Income Taxes	\$ 550	\$ 1,059	\$ 22	2.1 %
Sales Taxes	502	1,018	15	1.5
Other Sources:				
Public Utility Taxes	120	188	19	11.2
Cigarette Taxes	33	67	0	0.0
Inheritance Tax (gross)	31	67	21	45.7
Liquor Gallonage Taxes	16	24	7	41.2
Insurance Taxes and Fees	2	8	(7)	(46.7)
Corporation Franchise				
Tax and Fees	7	22	3	15.8
Investment Income	31	52	18	52.9
Cook County IGT	0	54	0	0.0
Other	20	36	2	5.9
Total, Other Sources	\$ 260	\$ 518	\$ 63	13.8 %
Total, Cash Receipts	\$ 1,312	\$ 2,595	\$ 100	4.0 %
Transfers In:				
Lottery Fund	\$ 47	\$ 65	\$ 10	18.2 %
State Gaming Fund	43	93	26	38.8
Protest Fund	0	2	2	0.0
Other Funds	20	69	(111)	(61.7)
Total, Transfers In	\$ 110	\$ 229	\$ (73)	(24.2) %
Total, State Sources	\$ 1,422	\$ 2,824	\$ 27	1.0 %
Federal Sources:				
Cash Receipts	\$ 377	\$ 661	\$ (18)	(2.7) %
Transfers In	0	3	3	0.0
Total, Federal Sources	\$ 377	\$ 664	\$ (15)	(2.2) %
Total, Revenues	\$ 1,799	\$ 3,488	\$ 12	0.3 %

COVER STORY concluded

The final report of the National Gambling Impact Study Commission (1999) called for a moratorium on gambling expansion primarily because little is known about the full costs and benefits of gaming operations. As stated by the Commission, "Gambling, like any other viable business, creates both profits and jobs. But the real question . . . is not simply how many people work in the industry, nor how much they earn, nor even what tax revenues flow from gambling. The central issue is whether the net increases in income and well-being are worth the acknowledged social costs of gambling."

Some of the harshest critics of the expansion of gaming allege the cause to be governments' constant search for more revenue. They claim that the growth of gaming is not due to any public clamoring for more opportunities to gamble, but rather is due to the promotional efforts of the

gaming industry itself. This support has created an awkward situation: the public is urged to gamble, but not so much as to become addicted to it.

The newest issue to raise a stir is Internet gambling. Given the ubiquity of the Internet and the spread of personal computers, it is not surprising that on-line gambling has sprouted up. One estimate of Internet gaming revenue totaled \$300 million in 1997 and \$651 million in 1998, although the National Gaming Impact Study Commission reported an estimate of \$919 million for 1998. Because it provides convenience, instant gratification and relative anonymity, Internet gambling is perceived to be a threat to addictive gamblers, and to children and adolescents. Although countries such as Australia and Antigua have moved to license Internet gaming operators, Congress is considering legislation to

prohibit Internet gambling. The National Association of Attorneys General, acknowledging that the issue can not be solved at the state level, has called on the federal government to ban such gaming.

Whether or not Internet gaming can be stopped is unclear. Recent studies have shown there were more than 700 "e-gaming" web sites accepting wagers in 1999, and the number was growing. One "cybercasino" developer has developed a business model for franchising his Antigua gambling license, and he claims to preside over 1,000 Web sites devoted to gambling with tens of thousands more to follow. However, a New York federal judge recently sentenced a former Antigua-based sports-betting executive to 21 months in prison for violating a 1961 law prohibiting the use of wires to transport wagers. ■

COMPTROLLER DANIEL W. HYNES

Contact us at our web address: <http://www.ioc.state.il.us>

Fiscal **FOCUS**

COMPTROLLER
Capitol Building
Springfield, Illinois 62706

Bulk Rate
U.S. Postage
PAID
Springfield, IL
Permit No. 367